

Message Text

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12

ACTION EB-07

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DEPT OF COMMERCE WASHDC

INFO AMEMBASSY BELGRADE

AMEMBASSY BUCHAREST

USMISSION GENEVA

AMEMBASSY MOSCOW

AMCONSUL MUNICH

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY VIENNA

AMEMBASSY WARSAW

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STATE PASS TREASURY; GENEVA FOR MTN DELEGATION

E.O. 11652: N/A

TAGS: EFIN, ETRD, HU

SUBJ: REVALUATION OF HUNGARIAN FORINT

REF A: BUDAPEST 0010

B: BUDAPEST 0564

1. HUNGARIAN NATIONAL BANK ANNOUNCED ON MARCH 1 SECOND
SIGNIFICANT REVALUATION OF TOURIST RATE VALUE HUNGARIAN
FORINT IN TWO MONTHS. CURRENCIES AFFECTED BY REVALUATION,
WHICH EFFECTIVE IMMEDIATELY, ARE U.S. DOLLAR, CANADIAN
DOLLAR, BRITISH POUND, ITALIAN LIRA, AND SPANISH PESETA.
AT SAME TIME HUNGARIAN FORINT DEVALUED BY APPROX 5 PERCENT
VIS-A-VIS SWISS FRANC. OLD AND NEW EXCHANGE RATES AND PER-
CENTAGE OF CHANGE AS FOLLOWS:

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OLD RATE NEW RATE PERCENT CHANGE

| | | | |
|--------------------|-------|---------|--------|
| U.S. DOLLAR | 21.75 | 20.4486 | -6 |
| BRITISH POUND | 51.12 | 49.07 | -4 |
| CANADIAN DOLLAR | 21.97 | 20.65 | -6 |
| 1,000 ITALIAN LIRA | 33.15 | 32.16 | -6 |
| 100 SPANISH PESETA | 38.55 | 36.25 | -7 |
| SWISS FRANC | 7.25 | 7.618 | PLUS 5 |

2. WITH LATEST REVALUATION NEW DOLLAR EXCHANGE RATE 12.4 PERCENT BELOW THE RATE OF 23.35 WHICH PREVALED DURING 1974. VALUE OF DOLLAR VIS-A-VIS FORINT HAS NOW DECLINED 33 PERCENT SINCE 1972 WHEN EXCHANGE RATE OF 30 FORINTS EQUALS \$1 INTRODUCED IN 1968 WAS CHANGED FOR FIRST TIME. SO-CALLED OFFICIAL EXCHANGE RATE WHICH USED PRIMARILY FOR STATISTICAL PURPOSES HAS ALSO BEEN READJUSTED AND NOW STANDS AT \$1 EQUALS 8.5130 FORINTS. FOREIGN EXCHANGE MULTIPLIER WHICH IN JANUARY SET AT 112.77 PERCENT HIGHER THAN TOURIST RATE HAS ALSO BEEN ADJUSTED DOWNWARD FOR ALL AFFECTED CURRENCIES. FOREIGN EXCHANGE RATE FOR DOLLAR NOW \$1 EQUALS 43.49 FORINTS. EMBASSY WILL POUCH PRECISE INFORMATION ON NEW LEVEL OF EXCHANGE RATES WHEN THESE RECEIVED FROM NATIONAL BANK.

3. COMMENT: BANK'S ACTION HAS COME IN RESPONSE TO CONTINUED WEAKNESS OF U.S. DOLLAR AND BRITISH POUND. DOLLAR'S POOR PERFORMANCE DURING FIRST TWO MONTHS OF 1975 IN CONTRAST TO LOCAL FINANCIAL EXPERTS' EXPECTATIONS AS NATIONAL BANK VICE PRESIDENT FEKETE TOLD US IN LATE DECEMBER THAT HE EXPECTED DOLLAR TO RALLY FOLLOWING U.S. END TO PROHIBITION AGAINST PRIVATE GOLD OWNERSHIP AND U.S. GOLD AUCTION. FROM FEKETE'S REMARKS ON THIS AND PREVIOUS OCCASIONS, EMBASSY SUSPECTS THAT NATIONAL BANK MAY HAVE MADE SUBSTANTIAL PURCHASES OF DOLLARS DURING LATTER HALF OF 1974 AND HAS SUFFERED FROM DOLLAR'S CONTINUED ECLINE.

4. SHORT INTERVAL BETWEEN THIS AND PREVIOUS HUNGARIAN REVALUATION MAY INDICATE ADOPTION OF POLICY OF REACTING MORE QUICKLY TO CHANGES IN INTERNATIONAL EXCHANGE RATES BY MORE FREQUENT ADJUSTMENTS IN FORINT'S VALUE. SUCH A POLICY PROPOSED LATE LAST YEAR BY NUMBER OF LEADING HUNGARIAN ECONOMISTS. IN PAST GOH HAS MOVED RELATIVELY SLOWLY IN ADJUSTING FORINT'S PARITY USING RATIONAL THAT LIMITED OFFICIAL USE

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IT WISHED TO BE SURE THAT CHANGES IN WESTERN EXCHANGE RATES REFLECTED LONG-TERM TRENDS. IN FUTURE EMBASSY ANTICIPATES THAT ADJUSTMENTS IN FORINT'S WORTH MAY TAKE PLACE MORE OFTER, OCCURING SOON AFTER ANY SIGNIFICANT REALIGNMENTS IN THE VALUES OF WESTERN CURRENCIES. PEDERSEN

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